

**Shiawassee County Road Commission
Corunna, Michigan**

FINANCIAL STATEMENTS

December 31, 2003

Shiawassee County Road Commission

TABLE OF CONTENTS

December 31, 2003

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-8
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Governmental Fund Balance Sheet	11
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	12
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	14
Notes to Financial Statements	15-24
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL OPERATING FUND	
Budgetary Comparison Schedule - Statement of Revenues - Budget and Actual	25
Budgetary Comparison Schedule - Schedule of Expenditures - Budget and Actual	26
OTHER SUPPLEMENTARY INFORMATION	
GENERAL OPERATING FUND	
Statement of Changes in Fund Balance	27
Analysis of Changes in Fund Balance	28
Analysis of Revenues	29
Analysis of Expenditures	30
Schedule of Changes in Capital Assets	31
REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	32

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INDEPENDENT AUDITOR'S REPORT

Board of the County Road Commissioners
Shiawassee County
Corunna, Michigan

We have audited the accompanying component unit financial statements of the governmental activities and the major fund of the Shiawassee County Road Commission, a component unit of Shiawassee County, Michigan as of and for the year ended December 31, 2003, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

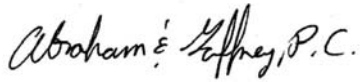
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Shiawassee County Road Commission as of December 31, 2003, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Commission has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of January 1, 2003, along with all related statements and interpretations.

In accordance with Government Auditing Standards, we have also issued a report dated February 19, 2004, on our consideration of the Shiawassee County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 25 through 26 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the component unit financial statements that collectively comprise the Shiawassee County Road Commission financial statements. The Other Supplementary Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the component unit financial statements of the Shiawassee County Road Commission. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

A handwritten signature in cursive script that reads "Abraham & Gaffney, P.C.".

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 19, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Shiawassee County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2003. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements. 2003 represents the first year the Commission implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended by GASB Statement No. 37 *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments - Omnibus* and Statement No. 38 *Certain Financial Statement Note Disclosures*. Therefore, this discussion and analysis provides few comparisons with the previous fiscal year. Future reports will include financial comparisons to the prior year as required by GASB.

Overview of the Financial Statements

This annual report consists of four parts - management's discussion and analysis (this section), the basic financial statements, required supplementary information, and the other supplementary information section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Shiawassee County Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Shiawassee County Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities - this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Shiawassee County Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are account for in the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Reporting the Shiawassee County Road Commission as a Whole (Continued)

Fund Financial Statements

The Road Commission currently has only one fund, the general operations fund. All of the Shiawassee County Road Commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. The General Operating Fund budget vs. actual schedules are located on pages 25 through 26. The other supplementary information begins on page 27 and provides detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year-end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Shiawassee County Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following each fund level financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets decreased from \$50,297,263 to \$48,322,119 for the year ended December 31, 2003. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for amounts invested in capital assets, net of related debt) are considered restricted.

Net assets decreased by \$1,975,144 during 2003. The primary reason for the decrease was the recognition of depreciation on infrastructure assets. Declining interest rates, decline in federal support for road projects and the loss of township revenue sharing negatively impacted net assets and will most likely account for future impacted net assets.

Net assets for the year ended December 31, 2003 follows:

	<u>2003</u>
Current and Other Assets	\$ 4,270,128
Capital Assets	<u>45,469,628</u>
Total Assets	49,739,756
Current Liabilities	356,930
Other Liabilities	<u>1,060,707</u>
Total Liabilities	1,417,637

Shiawassee County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Financial Analysis of the Road Commission as a Whole (Continued)

Net Assets (Continued)

	<u>2003</u>
Net Assets	
Invested in Capital Assets	
(Net of Related Debt)	44,859,628
Restricted for County Roads	<u>3,462,491</u>
Total Net Assets	<u>\$48,322,119</u>

Changes in Net Assets

Because this is the first year of implementation of Governmental Accounting Standards Board Statement No. 34, which requires this new reporting model, the tables presented throughout this discussion and analysis only reflect current year data. In future years, when prior year information is available, comparative analysis of Road Commission data will be presented.

	<u>Governmental Activities</u>
Program Revenues	
Charges for services	\$ 1,258,011
Operating grants and contributions	6,218,529
Capital grants and contributions	1,934,246
General Revenues	
Interest	28,533
Gain on equipment disposal	<u>25,277</u>
Total Revenues	9,464,596
Expenses	
Primary roads	3,155,431
Local roads	3,216,864
State trunkline	1,209,691
Equipment - net	128,909
Administrative - net	536,796
Compensated absences	8,317
Infrastructure depreciation	3,140,306
Interest expense	<u>43,426</u>
Total Expenses	<u>11,439,740</u>
Decrease in Net Assets	<u>\$(1,975,144)</u>

The Shiawassee County Road Commission's Fund Level Information

The Road Commission's general operating fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for road and highway purposes. For the year ended December 31, 2003, the fund balance of the general operating fund increased \$461,805 as compared to an increase of \$245,174 in the fund balance for the year ended December 31, 2002. Total operating revenues were \$9,464,596, a decrease of \$541,643 as compared to last year. This change in revenues resulted primarily from a decrease in township contributions of \$500,228. There was also a decrease in interest earned due to the overall economy in the amount of \$25,115. Total expenditures were \$9,002,791, a decrease of \$758,274 as compared to last year. This change in expenditures was due primarily to a decrease in local road heavy maintenance projects of \$402,989. There was also a decrease of \$68,955 in primary and local road structures for bridge projects that were completed during 2003 and an increase in capital outlay in the amount of \$42,986 from the prior year.

Shiawassee County Road Commission

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Financial Analysis of the Road Commission as a Whole (Continued)

A summary of changes in the Operating Fund for the year ended December 31, 2003 was as follows:

	12/31/03 <u>Operating Fund</u>
Revenues	
License and permits	\$ 35,010
Federal grants	506,970
State grants	6,060,920
Contributions from local units	1,584,885
Charges for services	1,210,526
Interest and rents	41,008
Other	<u>25,277</u>
Total Revenues	9,464,596
Expenses	
Primary road	3,635,612
Local road	3,706,745
State trunkline	1,209,691
Equipment	128,909
Administrative	536,796
Capital outlay	(386,617)
Debt service	<u>171,655</u>
Total Expenses	<u>9,002,791</u>
Excess of Revenues over Expenditures	461,805
Fund Balance - beginning	<u>3,295,815</u>
Fund Balance - ending	<u>\$ 3,757,620</u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2003 was \$606,851 lower than the original budget primarily due to the Road Commission not receiving certain federal aid projects during the year as originally planned. There was also a decrease in township contributions. The actual revenue recognized during 2003 was greater than the final amended budget by \$359,474. There was only one (1) immaterial unfavorable variance in all of the revenue line items.

The final amended expenditure budget for 2003 was \$1,177,141 lower than the original budget primarily due to the Road Commission not receiving township projects in the amount of \$375,861 during the year as originally planned. There was also decrease in primary road heavy maintenance expenditures as a result of a decrease in township contributions. The actual expenditures recognized during 2003 were greater than the final amended budget by \$10,914. There were unfavorable variances in certain expenditure line items.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2003, the Road Commission had invested \$45,469,628 in net capital assets. This amount represents a net decrease (including additions and deductions) of \$2,437,622 or 5% as follows:

	<u>2003</u>
Capital Assets Not Being Depreciated	
Land and improvements	\$ 408,714
Infrastructure - land improvements	<u>4,095,856</u>
Subtotal	4,504,570
Capital Assets Being Depreciated	
Buildings	2,078,193
Equipment	5,710,176
Depletable assets	153,402
Infrastructure	<u>61,939,352</u>
Subtotal	<u>69,881,123</u>
Total Capital Assets	74,385,693
Total Accumulated Depreciation	<u>(28,916,065)</u>
Total Net Capital Assets	<u>\$45,469,628</u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$61,939,352. The infrastructure is financed through federal, state and local contributions and has not been included in the audited financial statements in prior years.

This year's major capital asset additions included the following:

Land and improvements	\$ 13,758
Equipment	
Roads	506,462
Shop	4,000
Office	2,150
Engineer	4,659
Infrastructure	
Roads	440,012
Bridges	<u>530,050</u>
	<u>\$ 1,501,091</u>

There were no installment purchase agreements entered into during 2003.

During 2003, the Road Commission traded in and/or disposed of equipment (road, shop, office and engineer) with a purchase amount of \$546,991, related accumulated depreciation of \$501,474 and net book value of \$45,517.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Capital Asset and Debt Administration (Continued)

Debt

As of December 31, 2003, the Road Commission had \$610,000 in long-term bonds outstanding versus \$735,000 last year, a decrease of 17% as shown below:

	<u>12/31/02 Balance</u>	<u>2003 Payment</u>	<u>12/31/03 Balance</u>	<u>% of Change</u>
Bonds Payable	\$ 735,000	\$ 125,000	\$ 610,000	17%

During 2003 there was no new bonded debt.

Other obligations include accrued vacation pay and sick leave. As of December 31, 2003, the Road Commission had a \$278,919 outstanding debt related to accumulated unused vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Notes to the financial statements.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2004 budget. One of the factors is the economy. The Road Commission derives approximately 58% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive \$5,574,955, 2.169% more Michigan Transportation Fund revenues in 2004. The Road Commission received approximately 16.61% of its revenues from township contributions during 2003. This amount of local contributions fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. During 2004, we expect to receive at least \$2,786,191 in federal and state aid for road projects, some of which was deferred from 2003. Some of these projects were released late in the year after the construction season.

The above items were considered when adopting the budget for 2004. Amounts available for appropriation in the 2004 budget are \$11,684,775, an increase of \$2,579,653 over the 2003 final amended revenue budget of \$9,105,122.

Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Shiawassee County Road Commission's administrative offices at 701 W. Corunna Avenue, Corunna, MI 48817.

BASIC FINANCIAL STATEMENTS

Shiawassee County Road Commission

STATEMENT OF NET ASSETS

December 31, 2003

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,825,228
Due from other governmental units	
State	998,673
Local	113,471
Inventory	<u>332,756</u>
Total current assets	4,270,128
Noncurrent assets	
Capital assets, net	<u>45,469,628</u>
TOTAL ASSETS	49,739,756
LIABILITIES	
Current liabilities	
Accounts payable	49,869
Accrued liabilities	69,086
Accrued interest payable	16,210
Current portion of compensated absences	86,765
Current portion of long-term debt	<u>135,000</u>
Total current liabilities	356,930
Noncurrent liabilities	
Advances - State of Michigan	393,553
Noncurrent portion of compensated absences	192,154
Noncurrent portion of long-term debt	<u>475,000</u>
Total noncurrent liabilities	<u>1,060,707</u>
TOTAL LIABILITIES	<u>1,417,637</u>
NET ASSETS	
Invested in capital assets, net of related debt	44,859,628
Restricted for County Roads	<u>3,462,491</u>
TOTAL NET ASSETS	<u><u>\$ 48,322,119</u></u>

See accompanying notes to financial statements

Shiawassee County Road Commission

STATEMENT OF ACTIVITIES

December 31, 2003

	Governmental Activities
Program Expenses	
Primary Road	\$ 3,155,431
Local Road	3,216,864
State Trunkline	1,209,691
Equipment - net	128,909
Administrative - net	536,796
Compensated absences	8,317
Infrastructure depreciation	3,140,306
Interest expense	43,426
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TOTAL PROGRAM EXPENSE	11,439,740
Program Revenues	
Charges for services	1,258,011
Operating grants and contributions	6,218,529
Capital grants and contributions	1,934,246
	<hr/>
TOTAL PROGRAM REVENUES	9,410,786
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NET PROGRAM REVENUES	(2,028,954)
General Revenue	
Interest	28,533
Gain on equipment disposal	25,277
	<hr/>
CHANGE IN NET ASSETS	(1,975,144)
Net assets, beginning of the year	<hr/> 50,297,263
Net assets, end of the year	<hr/> <hr/> \$ 48,322,119

See accompanying notes to financial statements

Shiawassee County Road Commission
GOVERNMENTAL FUND BALANCE SHEET

December 31, 2003

	<u>Governmental Fund Types</u>
	<u>General</u>
	<u>Operating</u>
ASSETS	
Cash and cash equivalents	\$ 2,825,228
Due from other governmental units	
State	998,673
Local	113,471
Inventory	<u>332,756</u>
TOTAL ASSETS	<u><u>\$ 4,270,128</u></u>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	\$ 49,869
Accrued liabilities	69,086
Advances - State of Michigan	<u>393,553</u>
TOTAL LIABILITIES	512,508
FUND EQUITY	
Fund balance	
Reserved for primary road	926,450
Reserved for local road	1,734,439
Unreserved - undesignated	<u>1,096,731</u>
TOTAL FUND EQUITY	<u>3,757,620</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 4,270,128</u></u>

See accompanying notes to financial statements

Shiawassee County Road Commission

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

Year Ended December 31, 2003

Total fund balance - governmental funds **\$ 3,757,620**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 74,385,693	
Accumulated depreciation is	<u>(28,916,065)</u>	
Capital assets, net		45,469,628

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

Bonds payable	610,000	
Accrued interest payable	16,210	
Compensated absences	<u>278,919</u>	
		<u>(905,129)</u>

Net assets of governmental activities **\$ 48,322,119**

See accompanying notes to financial statements.

Shiawassee County Road Commission

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

Year Ended December 31, 2003

	<u>General Operating Fund</u>
REVENUES	
License and permits	\$ 35,010
Intergovernmental	8,152,775
Charges for services	1,210,526
Interest and rents	41,008
Other	<u>25,277</u>
TOTAL REVENUES	9,464,596
EXPENDITURES	
Current	
Primary Road	3,635,612
Local Road	3,706,745
State Trunkline	1,209,691
Equipment - net	128,909
Administrative - net	536,796
Capital outlay	(386,617)
Debt Service	<u>171,655</u>
TOTAL EXPENDITURES	<u>9,002,791</u>
EXCESS OF REVENUES OVER EXPENDITURES	461,805
Fund balances, beginning of year	<u>3,295,815</u>
Fund balances, end of year	<u><u>\$ 3,757,620</u></u>

See accompanying notes to financial statements

Shiawassee County Road Commission

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2003

Net change in fund balances - total governmental funds **\$ 461,805**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 1,501,091	
Depreciation expense	(734,645)	
Infrastructure depreciation	<u>(3,140,306)</u>	
Excess of depreciation expense over capital outlay		(2,373,860)

Reduction of capital asset as a result of early lease termination.		(183,000)
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets.
In the current year, these amounts consist of:

Bond principal retirement		125,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	3,228	
(Increase) in accrued compensated absences	<u>(8,317)</u>	
		<u>(5,089)</u>

Change in net assets of governmental activities		<u><u>\$ (1,975,144)</u></u>
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See accompanying notes to financial statements.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Shiawassee County Road Commission (the "Commission") is a component unit of Shiawassee County, Michigan. The Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, and contributions from other local units of government for work performed for road projects throughout the county.

The Commission which is established pursuant to the County Road Law (MCL 224.1) operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Commission. The Commission provides services to sixteen (16) Townships in Shiawassee County and maintains over 1,094 miles of local and primary roads.

1. Reporting Entity

The Commission is required by Public Act 51 of the State of Michigan to have an audit performed of its operations. This financial report has been prepared to meet this State requirement.

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Shiawassee County Road Commission. The Commission is considered a component unit of Shiawassee County, Michigan and is discretely presented in Shiawassee County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Corunna, Michigan.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Commission as a whole.

The statement of activities presents the direct functional expenses of the Commission and the program revenues that support them. Direct expenses are specifically associated with a service, program, or Commission and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and shows how governmental functions are either self-financing or supported by the general revenues of the Commission.

FUND FINANCIAL STATEMENTS

The Commission uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Commission's individual major fund.

2. Basis of Presentation - continued

The major fund of the Commission is:

- a. Special Revenue Fund - This general operating fund is used to account for all financial resources of the Commission, which are restricted to expenditures for specified county road related purposes.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues which are considered measurable, but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Commission has elected not to follow subsequent private-sector guidance

4. Budgets and Budgetary Accounting

The annual budget of the Commission is prepared by Commission management and approved by the Board. Any revisions to the original budget are approved by the Board before the end of the fiscal year.

5. Cash and Cash Equivalents

Cash and cash equivalents consists of the Commission's checking and savings accounts, money market account, and imprest cash.

6. Inventories

Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

7. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported under governmental activities within the operating fund in the government-wide financial statements. Capital assets are defined by the Shiawassee County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

7. Capital Assets - continued

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. During 2003, the Shiawassee County Road Commission has capitalized the current year's infrastructure and has also reported the retroactive cost for major infrastructure in the Statement of Net Assets for periods ending after June 30, 1980.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 - 50 years
Road Equipment	5 - 8 years
Shop Equipment	10 years
Engineering Equipment	4 - 10 years
Office Equipment	4 - 10 years
Infrastructure - Roads	5 - 30 years
Infrastructure - Bridges	12 - 50 years

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under the governmental activities within in the Operating Fund Statement of Net Assets.

9. Accrued Vacation and Sick Leave

In accordance with contracts negotiated with the various employee groups of the Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount along with related payroll taxes is recorded in the government-wide financial statements.

10. Equipment Rentals

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

11. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

12. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

13. Accounting Change

As of January 1, 2003, the Commission implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Commission's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Commission's activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include assets in the amount of \$3,478,832, which was previously reported in the General Fixed Assets Account Group. The government-wide statement of activities reflects depreciation expenses on the Commission's applicable capital assets.
- Long-term obligations reported on the statement of net assets include \$1,005,603, which was previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and interfund balances and transactions, and various other disclosures.

NOTE B: CASH AND CASH EQUIVALENTS

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Commission. All Commission receipts are deposited with the Shiawassee County Treasurer's Office, and in order to make disbursements, the Shiawassee County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer. All funds of the Commission are held with the County Treasurer in separate accounts in the Commission's name.

In accordance with Michigan Compiled Laws, the Commission is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

The Commission's bank deposits at December 31, 2003, are composed of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash		
Checking accounts	\$ 390,934	\$ 509,257
Savings and money market accounts	<u>2,434,244</u>	<u>2,434,244</u>
	<u>\$ 2,825,178</u>	<u>\$ 2,943,501</u>

Bank deposits of the Commission are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Commission. As of December 31, 2003, the Commission's accounts were insured by the FDIC for \$300,000 and the amount of \$2,643,501 was uninsured and uncollateralized.

The cash caption on the balance sheet includes \$50 in imprest cash.

NOTE C: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2003 was as follows:

	<u>Restated Balance Jan. 1, 2003</u>	<u>Additions and Reclassifications</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2003</u>
Capital Assets Not Being Depreciated				
Land and land improvements	\$ 394,956	\$ 13,758	\$ -	\$ 408,714
Infrastructure - land improvements	<u>4,164,227</u>	<u>-</u>	<u>68,371</u>	<u>4,095,856</u>
Subtotal	4,559,183	13,758	68,371	4,504,570

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE C: CAPITAL ASSETS - CONTINUED

	Restated Balance Jan. 1, 2003	Additions and Reclassifications	Deletions	Balance Dec. 31, 2003
Capital Assets Being Depreciated/Depleted				
Buildings	2,078,193	-	-	2,078,193
Equipment -				
Road	5,420,665	506,462	541,581	5,385,546
Shop	98,739	4,000	2,942	99,797
Office	156,161	2,150	2,468	155,843
Engineer	64,331	4,659	-	68,990
Infrastructure - roads	47,527,893	440,012	-	47,967,905
Infrastructure - bridges	13,441,397	530,050	-	13,971,447
Depletable assets	<u>153,402</u>	<u>-</u>	<u>-</u>	<u>153,402</u>
Subtotal	68,940,781	1,487,333	546,991	69,881,123
Less Accumulated Depreciation/Depletion				
Buildings	(636,751)	(49,808)	-	(686,559)
Equipment -				
Road	(3,869,750)	(664,267)	(492,655)	(4,041,362)
Shop	(54,318)	(7,378)	(6,351)	(55,345)
Office	(128,763)	(7,784)	(2,468)	(134,079)
Engineer	(44,631)	(5,408)	-	(50,039)
Infrastructure - roads	(17,956,788)	(2,850,878)	(50,126)	(20,757,540)
Infrastructure - bridges	(2,748,311)	(289,428)	-	(3,037,739)
Depletion	<u>(153,402)</u>	<u>-</u>	<u>-</u>	<u>(153,402)</u>
Subtotal	<u>(25,592,714)</u>	<u>(3,874,951)</u>	<u>(551,600)</u>	<u>(28,916,065)</u>
Net Capital Assets Being Depreciated	<u>43,348,067</u>	<u>(2,387,618)</u>	<u>(4,609)</u>	<u>40,965,058</u>
Total Net Capital Assets	<u>\$ 47,907,250</u>	<u>\$ (2,373,860)</u>	<u>\$ 63,762</u>	<u>\$ 45,469,628</u>

Depreciation expense was charged to the following activities:

	Amount
Net Equipment Expense	
Direct Equipment	\$ 664,267
Indirect Equipment	46,976
Net Administrative Expense	23,402
Infrastructure	<u>3,140,306</u>
	<u>\$ 3,874,951</u>

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the Commission for the year ended December 31, 2003:

	Balance Jan. 1, 2003	Additions	Deletions	Balance Dec. 31, 2003	Amounts due within one year
Governmental Activities					
1992 MMBA Transportation					
Fund Bonds	\$ 735,000	\$ -	\$ 125,000	\$ 610,000	\$ 135,000
Vacation and sick leave	<u>270,603</u>	<u>8,317</u>	<u>-</u>	<u>278,919</u>	<u>25,553</u>
	<u>\$ 1,005,603</u>	<u>\$ 8,317</u>	<u>\$ 125,000</u>	<u>\$ 888,919</u>	<u>\$ 160,553</u>

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE D: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long-term debt (including current portions) are presented below.

Bonds payable at December 31, 2003, are as follows:

\$1,350,000 MMBA Transportation Fund Program Bonds, Series 1992 C, dated June 24, 1992 due in annual installments ranging from \$135,000 to \$170,000 through August 1, 2007, with interest ranging from 6.3 to 6.4 percent, payable semi-annually. \$ 610,000

Accumulated Vacation and Sick

In accordance with Commission personnel policies and/or contracts negotiated with various employee groups of the Commission, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts.

Accumulated vacation and sick leave represents a liability to the Commission, which is presented in a current and long-term portion of the liability. For this reason, the total liability reported in the government-wide financial statements represents a current liability of \$86,765 and a long term liability of \$192,154 at December 31, 2003.

The annual requirements to pay general long-term debt principal and interest outstanding for the following bonds and installment contracts at December 31, 2003, is as follows:

<u>Year Ending December 31,</u>	<u>Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 135,000	\$ 38,905	\$ 173,905
2005	145,000	30,400	175,400
2006	160,000	21,120	181,120
2007	<u>170,000</u>	<u>10,880</u>	<u>180,880</u>
	<u>\$ 610,000</u>	<u>\$ 101,305</u>	<u>\$ 711,305</u>

NOTE E: FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal assistance for Highway Research, Planning and Construction pertaining to their County. However, only the federal financial assistance applicable to force account expenditure is required to be audited for compliance under the Single Audit Act through Commission procurement. The reason for this requirement is that the Commission is required to have accounting and administrative control over the force account portion while the balance is administered by Michigan Department of Transportation.

During the period ended December 31, 2003, the Road Commission of Shiawassee County had no federal financial assistance (local force revenue) applicable to force account expenditures. As a result, an audit for compliance under the Single Audit Act is not required.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE F: EMPLOYEE RETIREMENT SYSTEM

The Commission participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time employees are covered by the retirement system.

The benefits and conditions outlined below are for general information only. Public Act 427 of 1984, as amended, covers the benefits and conditions of the Municipal Retirement systems.

Normal Retirement:

Age 50 with 25 or more years of credited service
Age 55 with 15 or more years of credited service
Age 60 with 10 or more years of credited service (reduced to 8 or 6 years depending on benefits)
Mandatory Retirement: None

Deferred Retirement:

The termination of membership before age 60, other than by retirement or death, after 10 years of credited service is considered a deferred retirement. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Benefit allowances are computed based on the applicable criteria as detailed within the plan. Death and disability benefits are also provided.

Funding Policy

Covered employees can contribute between 0% and 10% of their annual salary to the retirement system. Employees must contribute 5% of annual compensation. The Commission is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended December 31, 2003 the Commission's annual pension cost of \$228,671 for the plan was equal to than the Commission's required contribution. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2002, using the entry actual age cost method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases depending on age, merit, longevity, and promotional salary increases. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE F: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Three (3) year trend information

	Year Ended December 31,		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Actuarial value of assets	\$ 9,630,929	\$ 9,939,783	\$ 9,757,935
Actuarial accrued liability (AAL)	11,920,568	12,290,746	12,677,814
Unfunded AAL	2,289,639	2,350,963	2,919,879
Funded ratio	81%	81%	77%
Covered payroll	1,778,858	1,841,810	1,857,180
UAAL as a percentage of covered payroll	129%	128%	157%
Annual pension cost	237,075	224,660	228,671
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTE G: CONTINGENT LIABILITIES

The Commission participates in a number of Federal and State assisted grant programs which are subject to compliance audits. The programs and the periodic program compliance audits of many of the programs have not yet been conducted, completed, or resolved. Accordingly, the Commission's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Commission expects such amounts, if any, to be immaterial.

There are various other legal actions pending against the Commission. Due to the inconclusive nature of many of the actions, it is not possible for Corporation Counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. These actions for which a reasonable estimate can be determined of the potential liability, if any, are considered by the Commission and legal counsel to be immaterial.

NOTE H: RISK MANAGEMENT

The Commission participates in the County Road Association Self-Insurance Fund with other Road Commissions for workers' compensation losses. The Commission has full statutory coverage for workers' disability compensation and employers' liability as granted by the State of Michigan under Chapter 6, Section 418.611 of the Workers' Disability Compensation Act. The Commission has no liability for additional assessments based on the claims filed against the fund nor do they have rights to dividends.

The Commission carries commercial insurance for the risk of loss due to directors' and officers' liability, general liability, auto, and property losses.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the financial statements, the Shiawassee County Road Commission budgeted expenditures in the General Operating Fund have been shown at the functional classification level. The approved budget of the Shiawassee County Road Commission has been adopted the activity level for the General Operating Fund.

	Amended Amount <u>Appropriated</u>	Actual Amount <u>Expended</u>	<u>Variance</u>
General Operating Fund State Trunkline	\$ 920,000	\$ 1,209,691	\$ 289,691

NOTE J: FUND BALANCE RESERVES

Reserved fund balance within the fund level financial statements is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of December 31, 2003:

General Operating Fund Reserved for Primary Road	\$ 926,450
Local Road	<u>1,734,439</u>
	<u>\$ 2,660,889</u>

NOTE K: FLEXIBLE BENEFITS PLAN

In November 1993 the Commission implemented a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Service Code. The plan is available to all employees following 30 days of employment. The plan permits them to reduce their salary and put these amounts into a flexible benefits account up to certain limits. The plan allows the employee to reduce their salary and apply it to required premium payments. A participating employee may elect instead a cash alternative to supplement salary compensation in lieu of a nontaxable health benefit. An employee's elected cash alternative will be considered a taxable benefit under the Flexible Benefit Plan.

The plan is administered by Shiawassee County Road Commission.

NOTE L: SUBSEQUENT EVENTS

After year ended December 31, 2003, the following significant event occurred:

In February the Commission issued a Michigan Transportation Fund Refunding Bond in the amount of \$490,000 for the purpose of refunding the 1992 MMBA Transportation Fund Bond.

REQUIRED SUPPLEMENTARY INFORMATION

Shiawassee County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
REVENUES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2003

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Licenses and permits				
Permits	\$ 30,000	\$ 34,545	\$ 35,010	\$ 465
Intergovernmental				
Federal sources				
Critical Bridge	779,703	429,703	414,367	(15,336)
Safety	92,603	92,603	92,603	-0-
State sources				
Motor Vehicle Highway Funds				
Engineering	9,900	8,805	8,805	-0-
Primary road	3,267,746	3,472,523	3,529,998	57,475
Local road	1,680,000	1,720,108	1,744,451	24,343
Primary urban road	107,100	110,108	111,694	1,586
Local urban road	59,400	60,736	61,611	875
Critical Bridge	77,694	77,694	77,694	-0-
Negotiated contract	638,807	526,667	526,667	-0-
Local sources				
Township contributions	1,947,885	1,572,024	1,572,057	33
Other contributions	25,000	12,828	12,828	-0-
Total intergovernmental	8,685,838	8,083,799	8,152,775	68,976
Charges for services				
State Trunkline maintenance				
Direct charges	607,452	621,317	911,008	289,691
Indirect charges	298,683	298,683	298,683	-0-
Salvage sales	500	835	835	-0-
Total charges for services	906,635	920,835	1,210,526	289,691
Interest and rents	72,000	40,666	41,008	342
Other				
Gain on equipment disposal	17,500	25,277	25,277	-0-
TOTAL REVENUES	<u>\$ 9,711,973</u>	<u>\$ 9,105,122</u>	<u>\$ 9,464,596</u>	<u>\$ 359,474</u>

Shiawassee County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
EXPENDITURES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2003

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
EXPENDITURES				
Current				
Primary Road				
Maintenance	\$ 1,100,000	\$ 1,375,000	\$ 1,400,932	\$ (25,932)
Heavy maintenance	3,400,000	1,920,000	1,889,846	30,154
Structure maintenance	150,000	380,000	344,834	35,166
Total Primary Road	4,650,000	3,675,000	3,635,612	39,388
Local Road				
Construction	25,000	80,000	71,720	8,280
Maintenance	1,650,000	1,720,000	1,728,607	(8,607)
Heavy maintenance	1,450,000	1,575,000	1,539,739	35,261
Structure maintenance	768,000	400,000	366,679	33,321
Total Local Road	3,893,000	3,775,000	3,706,745	68,255
State Trunkline				
Maintenance	906,135	920,000	1,209,691	(289,691)
Equipment				
Direct	1,300,000	1,270,000	1,200,861	69,139
Indirect	510,000	535,000	478,119	56,881
Operating	160,000	155,000	151,037	3,963
Less: Equipment rental	(1,695,847)	(1,695,847)	(1,701,108)	5,261
Total Equipment	274,153	264,153	128,909	135,244
Administrative				
Administration	579,075	695,000	648,528	46,472
Less:				
Handling charges	(500)	(1,000)	(1,050)	50
Overhead state	(78,000)	(115,000)	(105,224)	(9,776)
Purchase discount	(7,500)	(5,458)	(5,458)	-
Total Administrative	493,075	573,542	536,796	36,746
Capital Outlay				
Capital outlay	650,000	531,029	531,029	-0-
Less:				
Depreciation and depletion	(760,000)	(735,502)	(734,646)	(856)
Trade in allowance	(109,000)	(183,000)	(183,000)	-0-
Total Capital Outlay	(219,000)	(387,473)	(386,617)	(856)
Debt Service				
Principal payments	125,000	125,000	125,000	-0-
Interest payments	46,655	46,655	46,655	-0-
Total Debt Service	171,655	171,655	171,655	-0-
TOTAL EXPENDITURES	\$ 10,169,018	\$ 8,991,877	\$ 9,002,791	\$ (10,914)

OTHER SUPPLEMENTARY INFORMATION

Shiawassee County Road Commission
STATEMENT OF CHANGES IN FUND BALANCE
GENERAL OPERATING FUND
Year Ended December 31, 2003

TOTAL REVENUES	\$ 9,464,596
TOTAL EXPENDITURES	<u>9,002,791</u>
EXCESS OF REVENUE OVER EXPENDITURES	461,805
Fund balance, beginning of year	<u>3,295,815</u>
Fund balance, end of year	<u><u>\$ 3,757,620</u></u>

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF CHANGES IN FUND BALANCE

Year Ended December 31, 2003

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	\$ 4,872,801	\$ 3,299,521	\$ 1,292,274	\$ 9,464,596
TOTAL EXPENDITURES	<u>3,936,654</u>	<u>4,040,767</u>	<u>1,025,370</u>	<u>9,002,791</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	936,147	(741,246)	266,904	461,805
OTHER FINANCING SOURCES (USES)				
Optional transfers in	-	1,094,276	-	1,094,276
Optional transfers out	<u>(1,094,276)</u>	<u>-</u>	<u>-</u>	<u>(1,094,276)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(1,094,276)</u>	<u>1,094,276</u>	<u>-0-</u>	<u>-0-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(158,129)	353,030	266,904	461,805
Fund balance, beginning of year	<u>1,084,579</u>	<u>1,381,409</u>	<u>829,827</u>	<u>3,295,815</u>
Fund balance, end of year	<u>\$ 926,450</u>	<u>\$ 1,734,439</u>	<u>\$ 1,096,731</u>	<u>\$ 3,757,620</u>

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES

Year Ended December 31, 2003

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Licenses and permits				
Permits	\$ -	\$ -	\$ 35,010	\$ 35,010
Intergovernmental				
Federal sources	278,928	228,042	-	506,970
State sources	4,209,189	1,851,731	-	6,060,920
Local sources	375,294	1,207,789	1,802	1,584,885
Total intergovernmental	4,863,411	3,287,562	1,802	8,152,775
Charges for services				
State Trunkline				
Direct charges	-	-	1,209,691	1,209,691
Salvage sales	-	-	835	835
Total charges for services	-0-	-0-	1,210,526	1,210,526
Interest and rents	9,390	11,959	19,659	41,008
Other				
Gain on sale of equipment	-	-	25,277	25,277
TOTAL REVENUES	\$ 4,872,801	\$ 3,299,521	\$ 1,292,274	\$ 9,464,596

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF EXPENDITURES

Year Ended December 31, 2003

	Primary Road Fund	Local Road Fund	County Road Commission	Total
EXPENDITURES				
Construction	\$ -	\$ 71,720	\$ -	\$ 71,720
Heavy Maintenance	1,889,846	1,539,739	-	3,429,585
Structure Maintenance	344,834	366,679	-	711,513
Maintenance	1,400,932	1,728,607	-	3,129,539
State Trunkline	-	-	1,209,691	1,209,691
Equipment Expense - Net	35,244	63,024	30,641	128,909
Administrative Expense - Net	265,798	270,998	-	536,796
Capital Outlay - Net	-	-	(386,617)	(386,617)
Debt Service	-	-	171,655	171,655
TOTAL EXPENDITURES	<u>\$ 3,936,654</u>	<u>\$ 4,040,767</u>	<u>\$ 1,025,370</u>	<u>\$ 9,002,791</u>

Shiawassee County Road Commission

SCHEDULE OF CHANGES IN CAPITAL ASSETS

Year Ended December 31, 2003

	Restated Balance Jan. 1, 2003	Additions and Reclassifications	Deletions	Balance Dec. 31, 2003
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land and land improvements	\$ 394,956	\$ 13,758	\$ -	\$ 408,714
Infrastructure - land improvements	4,164,227	-	68,371	4,095,856
Subtotal	4,559,183	13,758	68,371	4,504,570
CAPITAL ASSETS BEING DEPRECIATED/DEPLETED				
Buildings	2,078,193	-	-	2,078,193
Equipment				
Road	5,420,665	506,462	541,581	5,385,546
Shop	98,739	4,000	2,942	99,797
Office	156,161	2,150	2,468	155,843
Engineer	64,331	4,659	-	68,990
Infrastructure - Roads	47,527,893	440,012	-	47,967,905
Infrastructure - Bridges	13,441,397	530,050	-	13,971,447
Depletable assets	153,402	-	-	153,402
Subtotal	68,940,781	1,487,333	546,991	69,881,123
LESS ACCUMULATED DEPRECIATION/DEPLETION				
Buildings	(636,751)	(49,808)	-	(686,559)
Equipment				
Road	(3,869,750)	(664,267)	(492,655)	(4,041,362)
Shop	(54,318)	(7,378)	(6,351)	(55,345)
Office	(128,763)	(7,784)	(2,468)	(134,079)
Engineer	(44,631)	(5,408)	-	(50,039)
Infrastructure - Roads	(17,956,788)	(2,850,878)	(50,126)	(20,757,540)
Infrastructure - Bridges	(2,748,311)	(289,428)	-	(3,037,739)
Depletion	(153,402)	-	-	(153,402)
Subtotal	(25,592,714)	(3,874,951)	(551,600)	(28,916,065)
Net Capital Assets Being Depreciated	43,348,067	(2,387,618)	(4,609)	40,965,058
Total Net Capital Assets	<u>\$ 47,907,250</u>	<u>\$ (2,373,860)</u>	<u>\$ 63,762</u>	<u>\$ 45,469,628</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of County Road Commissioners
Shiawassee County
Corunna, Michigan

We have audited the component unit financial statements of the Shiawassee County Road Commission as of and for the year ended December 31, 2003, and have issued our report thereon dated February 12, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Shiawassee County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Shiawassee County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one of more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to material weaknesses.

This report is intended for the information and use of management and the Board of County Road Commissioner's and is not intended to be used by anyone other than these specified parties.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 19, 2004

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